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## Book Review: Globalization and the Politics of Pay: Policy Choices in the American States by Susan B. Hansen

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Hansen, Susan B. (2006) *Globalization and the Politics of Pay; Policy Choices in the American States*. (Georgetown University Press: Washington: D.C.)

A great deal of scholarly work has examined the effect of globalization on wages, job creation, and economic competition in the United States. Susan Hansen's analysis adds to this work by disaggregating the effects of globalization to the state level. Given the nation's federal system and the ability of the states to react somewhat independently to international economic trends, it is uncertain that an increase in world trade has had the same effect across the American states. The goal of this book is to understand what factors explain trends in state labor costs. Conventional wisdom is that ongoing globalization is the chief cause of declining wages. States that hope to remain competitive in an international economy must be willing to accept lower labor costs. Following this reasoning, and controlling for a number of factors, low labor cost states should attract greater foreign direct investment, export more, and have greater job growth. Hansen's analysis suggests the conventional wisdom may be wrong. In particular, she argues that state policies designed to keep labor costs low and thus, in theory, spur economic growth, have, in fact, the opposite effect.

Although Hansen's primary interest is how state government policy influences labor costs, she considers three alternative determinants of state wage trends: (1) a state's exposure to the international market, (2) interstate competition which permits businesses to "vote with their feet" and move to states with lower taxes (or those offering generous subsidies), (3) and the impact of federal policies such as the minimum wage and Social Security payroll taxes.

The key independent variable for Hansen's analysis is an index of labor cost over the period 1970-2000. This measure incorporates data on state union membership, the presence of right-to-work laws, benefits for unemployed, workmen's compensation payments, and wages for manufacturing to create a factor score for each state-year. Subsequent analysis gauges its explanatory power for the four hypotheses. Since

the cost-of-living varies considerably from state to state, one wishes she had adjusted this measure accordingly. A second dependent variable, state job growth, is measured as the annual rate of change in the number of persons employed in a state. It would have been useful if "job growth" had been decomposed into high and low wage job growth. As it is measured, it is difficult to be certain to what degree job growth offsets the negative effects of declining wages.

Hansen's book resembles a series of stand-alone articles. Yet, together they make a persuasive case that politics is an important (if not dominant) factor in state labor costs. The first substantive chapter examines the role of federalism in promoting state competition to reduce labor costs. State policies, from Jim Crow laws to restrictions on child labor, meant to suppress wages gave way after the Great Depression to national New Deal policies raising the cost of labor. Though many politicians, particularly in the South, opposed federal influence in state economic policy, the severe economic crisis enabled Roosevelt to override their objections. Labor union membership increased, a minimum wage was put in place, Social Security and unemployment insurance established, and child labor prohibited. However, state policies designed to lower labor costs resumed after WW II, particularly right-to-work laws, a significant barrier to union organization in a state. Hansen also documents recent efforts to suppress labor costs, perhaps most notably cuts in workmen's compensation, more onerous eligibility requirements for unemployment benefits, and increased restrictions on labor union activities.

Hansen's data indicate that, in the aggregate, unionization levels have dropped almost 80% in the thirty-year period, especially in states with right-to-work laws. Manufacturing wages, unemployment benefits, and state worker's compensation also stagnated until the early to mid 1990s when all three began to rise. However, state labor costs have continued to decline, dropping more than 25% while federal labor costs have almost tripled. This suggests an independent effect for state-level policy. Moreover, she finds that the impact of federal labor costs accounts for only 10% of the variation in state labor costs.

Despite the general decline in labor costs in the American states during this period, Hansen's analysis reveals considerable variability among the states. For instance, Michigan earns the highest labor cost

factor score of 441 in 1970 yet labor costs by the year 2000 sunk almost 25%. On the other hand, North Carolina, which had the lowest labor costs of any state in 1970, has experienced the greatest gain (7.4%). Hansen also finds that while state and local taxes as a percent of personal income have become more similar across states during this period and a slight convergence is also apparent in manufacturing wages, there is no evidence that the states have become more similar in terms of state unemployment benefits, worker's compensation, or per capita income. These findings suggest that the prediction that states, in the face of interstate competition to thrive in a global economy, would "race to the bottom" in terms of lower taxes and reduced business regulation may be off the mark. But what about those states most exposed to the international economy?

Hansen measures state involvement in the global economy in two ways, the value of a state's manufacturing exports and its dollar amount of foreign direct investment (FDI). Her analysis reveals that, contrary to expectations, greater exposure to the international economy is related to higher labor costs. States with robust export markets and relatively more FDI also had modestly higher taxes. Hansen's critique of globalization as inherently negative to state economic well-being is strengthened by her findings that state economies with high levels of FDI and strong foreign exports are better on many economic indicators. Controlling for the effect of higher labor costs, gross state product is higher, unemployment rates are lower, job growth is higher, and per capita income is somewhat higher (though the rate of income growth is slower) in states with strong links to the global economy.

Hansen's empirical evidence has demonstrated that a state's labor costs, to a large extent, are determined by factors endogenous to the state. The remainder of the book focuses on the causes and consequences of declining state labor costs. Turning first to causes, she considers a broad array of economic, demographic, and political variables thought to influence wage rates. Among the economic determinants, most notable is the size of a state's manufacturing base. Labor costs are higher in those states with a relatively strong manufacturing base, though since 1980 further increases in the proportion of the state labor force employed in this sector is related to declining wages. Hansen attributes this to manufacturing jobs moving to states with weaker union



protections. The demography of a state also influences labor costs. A large immigrant population and the percent female in the workforce suppresses wages, while both the proportion of high school and college graduates are related to increased labor costs. Both the economic and demographic variables are largely out of the control of state policy makers and general partisan trends, though a more educated workforce would seem to be at least partly a function of political priorities.

Hansen's chief interest lies in explaining the political factors affecting state labor costs. The first of these is partisan control, which Hansen measures as the Democratic percentage of a state legislature and the party identification of a state electorate. Given the history of the southern states (i.e. anti-union, regressive taxes, New Deal opposition) and the fact that the region has the lowest labor costs, she splits her analysis of party control into South and Non-South. This process reveals that Democratic strength in the southern states from 1980 to 2000 has had a strong negative effect on net declines in labor costs (in other words, labor costs have not declined as fast). The same conclusion emerges when state labor costs are correlated to state partisanship. However, Democratic strength in non-Southern states actually contributes to a greater decline in state labor costs. This curious difference, Hansen argues, is "because the growing Republican ascendancy has combined with economic conservatism and declining labor costs" (Hansen 2006, 77). But isn't economic conservatism a hallmark of the GOP throughout the American states? A more likely explanation for this regional difference is the relatively low voter turnout rates, which suggests less participation by low-income whites and African-Americans. Indeed, Hansen identifies a strong positive relationship between voter turnout and state labor costs. She concludes her analysis of the causes behind changes in state labor costs from 1970 to 2000 with a model incorporating measures of state exposure to the global economy, and relevant economic, demographic, and political variables. This analysis reveals globalization has not exerted a negative effect on state labor costs. In fact, FDI is related to higher labor costs. The most important determinants of state labor costs are the political variable turnout rate and public union membership. The percentage of the population that has graduated from college is also a significant factor.

What then are the consequences of low labor costs? Hansen examines two perspectives, the economic effect and the social cost. Economically, there is a tradeoff between high labor costs and unemployment. Unemployment rates are higher in states with high labor costs and job growth is lower. However, unemployment is substantially lower in states that enjoy high levels of FDI and high labor costs. On the other hand, higher labor costs are associated with increased exports, higher per capita income, and a larger gross state product. The social costs of lower wages appear considerable. Unsurprisingly, states in the bottom third of labor costs have the highest poverty rates and the lowest incomes. These states also have the lowest education expenditures and turnout rates. Less obvious consequences of low labor costs are increased crime, suicide, and divorce rates. These states also have an increased incidence of single-parent households and child poverty.

Hansen concludes analysis of the "politics of pay" with several policy recommendations. Many of her proposals require federal government action. She advocates an expansion of the Earned Income Tax Credit program and the Trade Adjustment Assistance program, which seeks to minimize the effect of international competition on those most exposed. She also urges states to lobby for increased spending on defense and homeland security projects as this sort of expenditure typically translates into high-paying jobs. Her recommendations to state-level policymakers are to increase spending on education, to focus on luring businesses that pay high wages and provide benefits, and to encourage through election reform higher voter turnout.

*Globalization and the Politics of Pay* questions the inevitability of declining labor costs in the United States. Hansen's study reveals that, though globalization may operate as a disruptive force on the economic status quo, it need not result in a lower standard of life. She shows that those states keeping wages high are also most involved in international trade. States with high labor costs not only enjoy higher personal income, but also have a better quality of life. Important indicators of social well-being, such as crime and suicide rates are lower in states with higher wages. Hansen's study introduces a level of complexity to the debate over the consequences of the increasing globalization of trade.

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